



CITY OF HARTFORD

PENSION COMMISSION

MEMORANDUM

To: Pension Commission
From: *AMC*
Adam M. Cloud, Secretary
Date: November 9, 2012
Subject: Review of Minutes from the Meeting of October 26, 2012

Enclosed for your review are the minutes of the investment portion of the Pension Commission meeting of Friday, October 26, 2012.

*INVESTMENTS
AGENDA ITEM I*

Pension Commission
City of Hartford Conference Room
260 Constitution Plaza
Hartford, CT 06103
Friday, October 26, 2012
9:00 a.m.

MINUTES

INVESTMENT PROGRAM

MEMBERS PRESENT: Peter Stevens, Chairman; Gene Goldman, Commissioner; Marc Nelson, Employee Representative; Adam M. Cloud, Secretary and Carmen Sierra, Assistant Secretary

MEMBER EXCUSED: Frank Lord, Commissioner

STAFF PRESENT: Gary B. Draghi, Director of Investments; P. Wayne Moore, Assistant Director of Investments; J. Sean Antoine, Principal Administrative Analyst and Donna Parker, Plan Administrator

OTHERS PRESENT: Tad Fergusson and Ahman Dirks, Pension Consulting Alliance; Lisa Silvestri, Assistant Corporation Counsel, George Zoltowski, Principal Accountant and Gwendolyn Smith-Iloani, Smith Whiley & Co.

I. Review of Minutes: Meeting of September 28, 2012

Chairman Stevens introduced the item and asked for questions, comments or corrections. There were none.

A motion was made, seconded and adopted to accept the minutes as presented.

II. Status of the MERF Portfolio as of September 30, 2012

Chairman Stevens introduced the item and asked the Investment Unit to report. Mr. Antoine reported that, at September 30, 2012, the MERF portfolio had a market value of approximately \$954.8 million, and had generated a return of positive 1.9% net of fees for the month, matching the benchmark return.

Mr. Antoine then stated that the MERF's alternatives portfolio had reported a net return of positive 2.6% for the month, matching the benchmark return. He noted that the equity portfolio reported a net return of positive 3.2% for the month, also matching the benchmark return.

Mr. Antoine then reported that the MERF's fixed income portfolio posted a net return of positive 0.7% for the month, outperforming the benchmark return of positive 0.4% by 30 basis points.

Mr. Antoine then reported that the MERF's global tactical asset allocation portfolio posted a net return of positive 2.3% for the month, slightly outperforming the benchmark return of positive 2.2%, by 10 basis points. He asked if there were any questions, there were none.

The Commission accepted the report for advice.

III. PCA Update

- **Private Equity Performance**
- **Smith Whiley Pelham Fund IV Recommendation**

Chairman Stevens introduced the item. Secretary Cloud asked Tad Fergusson of Pension Consulting Alliance ("PCA"), the MERF's alternative investment consultant, to review the Alternative Investment Program Performance Report prepared by PCA. Mr. Fergusson stated that, as of June 30, 2012, the MERF's private equity program had committed \$123 million across 15 partnerships with approximately 69% of capital (\$99.1 million) drawn down. He noted that long-term performance results were increasingly attractive, with an 11.2% net internal rate of return ("IRR") since inception. He also noted that, as of June 30, 2012, the MERF's private equity program had received approximately \$62.3 million in distributions and had a reported market value of approximately \$66.9 million as of June 30, 2012 resulting in a strong 1.3x multiple of the MERF's invested capital.

Mr. Fergusson noted that the MERF's program was well diversified across investment strategies, including buyouts, opportunistic, venture capital, mezzanine and real estate funds. He went on to state that, while PCA believed that all of these

strategies were attractive, the opportunistic strategy seems particularly well-placed to achieve significant growth given current market conditions.

In response to a question regarding fundraising efforts across the private equity spectrum, particularly regarding the mezzanine and secondary sectors fundraising, Mr. Fergusson noted that mezzanine capital raises were commonly a function of buyout capital commitments. He noted that 2008 represented a high watermark in the mezzanine fundraising, largely due to one very large partnership closing in that year. Mr. Fergusson added that capital commitments to secondary funds have grown, but not so much as to be considered a major shift in the marketplace. Mr. Fergusson concluded by stating that, as of June 30, 2012, the MERF's private equity program represented approximately 7 percent of total plan assets and was well positioned.

The Commission accepted the report for advice.

Smith Whiley Pelham Fund IV

Chairman Stevens introduced the Item. Secretary Cloud asked Mr. Fergusson to report to the Commission regarding PCA's written evaluation of Smith Whiley Pelham Fund IV. Mr. Fergusson stated that PCA believed the S.W. Pelham Fund IV, L.P. ("SW Pelham IV") represented an opportunity to invest with an experienced firm implementing an attractive investment strategy in the mezzanine sector. He stated that PCA recommended that the MERF commit \$5 million to SW Pelham IV, contingent upon the fund achieving \$100 million of commitments and subject to the satisfactory negotiation of all terms and conditions.

Mr. Fergusson then noted that this investment would represent the first commitment to the MERF's private debt allocation. He added that this investment was expected to generate attractive risk-adjusted returns with a significant current income component and relatively low volatility.

Secretary Cloud asked Ms. Smith-Iloani, Smith Whiley's President, to address the Commission. Ms. Smith-Iloani described the difficult fundraising environment and SW Pelham IV's progress to date. She closed by noting that Smith Whiley's main office was located in Hartford and was committed to staying. Discussion ensued.

A motion was made, seconded and adopted to authorize the Secretary to execute the necessary documents to commit \$5 million to the Smith Whiley Pelham IV fund, contingent upon this fund achieving \$100 million of commitments and the conclusion of satisfactory contract negotiations.

IV. Proxy Voting Services

Chairman Stevens introduced the item. Secretary Cloud asked Mr. Draghi to report to the Commission. Mr. Draghi stated that the MERF's contract with Institutional Shareholders Services ("ISS") for proxy voting services was set to expire on December 31, 2012, unless it was extended. He noted that the extension of the contract would involve a small price increase in accordance with the terms of the current contract. He closed by noting that the Secretary recommended the extension of the contract through December 31, 2013. Discussion ensued.

A motion was made, seconded and adopted to authorize the Secretary to renew the contract with Institutional Shareholders Services for proxy voting services for an additional year ending on December 31, 2013.

V. Other Business

Chairman Stevens introduced the item. Secretary Cloud stated that there was no other business.

There being no further business, Chairman Stevens adjourned the meeting.

ATTEST: Adam M. Cloud
Adam M. Cloud, Secretary